

VZCZCXRO1819  
RR RUEHPA  
DE RUEHPA #0022/01 0191422  
ZNR UUUUU ZZH  
R 191422Z JAN 10  
FM AMEMBASSY PRAIA  
TO RUEHC/SECSTATE WASHDC 1911  
RUCPDO/USDOC WASHDC 0020  
RUCPCIM/CIMS NTDB WASHDC  
INFO RUEHDK/AMEMBASSY DAKAR 0657  
RUEHPA/AMEMBASSY PRAIA 2857

UNCLAS SECTION 01 OF 13 PRAIA 000022

SIPDIS

E.O. 12958: N/A

TAGS: [EFIN](#) [EIND](#) [EINV](#) [ETRD](#) [ECIN](#) [ECON](#) [EAID](#) [KTDB](#) [TRSY](#)  
SUBJECT: CAPE VERDE'S 2010 INVESTMENT CLIMATE REPORT

REF: STATE 124006

11. SUMMARY: In response to reftel request, post provides the following information on Cape Verde's Investment Climate Report. The full text will also be sent separately by e-mail. END  
SUMMARY

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INTRODUCTION  
  
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12. The government of Cape Verde (GOCV) looks to private investment as the engine for the country's future economic growth, with a focus on export-oriented industries, tourism, transportation services, and attraction of foreign investment. A great effort has been made over the past ten years to promote a market-oriented economic model. Policies have been endorsed and supported by the World Bank, IMF, United States, and many other donors. In December 2009, Cape Verde became the first MCC partner country to be selected as eligible for a second compact after consistently displaying good economic and political governance. In July 2005, Cape Verde had become the third country to sign a five-year Compact with the Millennium Challenge Corporation. The \$110 million Compact supports Cape Verde's overall national development goal of transforming its economy from aid-dependency to sustainable, private-sector led growth. Cape Verde is expected to also be the first country to finish successfully its MCC Compact in October 2010. Compact funds have been used to improve the country's investment climate and reform the financial sector; improve infrastructure to support increased economic activity and provide access to markets, employment, and social services; and increase agricultural productivity and raise the income of the rural population as well as carry out key policy reforms needed for sustained economic growth.

13. For FY 2010, Cape Verde's MCC assessment included the following scores:

Government Effectiveness      0.47    (82%)

Rule of Law	0.87	(94%)
Control of Corruption	1.30	(100%)
Fiscal Policy	-2.30	(31%)
Trade Policy	65.5	(29%)
Regulatory Quality	0.41	(79%)
Business Start-Up	0.966	(56%)
Land Rights and Access	0.708	(46%)
Natural Resource Management	61.07	(16%)

Obs:

Each indicator has the country's score and percentile ranking in its income peer group (0% is worst; 50% is the median; 100% is best).

14. In January 2008, four years after the United Nations Resolution 59/210 recommendation, Cape Verde graduated from a Least Developed Country to a Lower Middle Income Country. On May 26 of that same year, five months after the World Trade Organization (WTO) approved its application; Cape Verde's

PRAIA 00000022 002 OF 013

legislatures unanimously ratified the agreement and formally acceded to the WTO.

15. Foreign Investments in Cape Verde have been mainly in the areas such as tourism and light manufacturing. However, new opportunities are arising which may result in great opportunities for American companies. Sectors such as construction (major Infrastructures), transportation and energy are becoming areas of major investments. In terms of transportation, Cape Verde's strategic and geographic location places the country in a position to become a regional and international shipping hub for both passengers and cargo. Nonetheless, the country remains poorly served by insufficient and inefficient maritime transportation, especially for passengers. On the other hand, the energy sector in Cape Verde is going through a crisis, and dramatic changes and investments are expected soon. The government of Cape Verde is considering a number of solutions to overcome its major development challenges, and has begun to take strategic measures by investing in alternative energy resources. The goal is to produce 25% of energy needs from renewable sources by 2011, and 50% by 2020. There are also plans to make the island of Sal fully (100%) reliant on renewable energy (a combination of solar, wind, wave, and biofuel) in the next 5 to 10 years. Cape Verde's ambitious growth plans will require big investments in power and water infrastructure, and the use of alternative energy may result in great opportunities for American companies.

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OPENNESS TO FOREIGN INVESTMENT  
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¶16. Despite of Cape Verde's size, it has been consistently considered, by the Wall Street Journal and the Heritage Foundation as one of the countries with most economic freedom of Africa, right after Botswana, and among the top 50 of the world.

In Cape Verde, the government looks to private investment as the engine for the country's future economic growth. It strongly seeks to attract investment that will stimulate business activities and modernize the country's economic structure. The greatest emphasis is placed on tourism and export-oriented industries, energy, transportation services, and attraction of foreign investment.

¶17. The government is in the process of refining laws and related regulations in order to expedite approval for new investments and to expand existing ones. Due to existing preferential access agreements with large world markets, low wages and the high availability of unskilled workers, as well as a moderate tropical climate, the sectors enjoying highest priority are tourism, transportation, services, fishing and light manufacturing.

¶18. Foreign investment in the ongoing privatization of state-owned enterprises has been a major objective of the privatization effort. The majority of public companies privatized to date have been acquired by Portuguese investors. In some instances, however, the Government of Cape Verde reserves shares for Cape Verdean investors. The government encourages joint ventures with local investors.

¶19. The 2009 Index of Economic Freedom ranked Cape Verde 77th in the scale of overall economic freedoms, and 7th out of 46 countries in the Sub-Saharan Africa region, and its overall score is much higher than the regional average.

¶10. Cape Verde has been consistently considered one of the least corrupt nations in Africa. In 2009, Cape Verde moved up two places in the ranking of the International Transparency report (from 49th to 47th of 180 countries) and continues to have the second leading positions among African nations after Mauritius. Out of the 180 countries surveyed, only 49 achieved a score of 5.0 or more.

PRAIA 00000022 003 OF 013

¶11. In 2010 doing Business Report, Cape Verde occupies the 146th place out of 183 countries analyzed.

#### CAPE VERDE - DOING BUSINESS 2010:

Indicators	DB2010 (out of 183)
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Global Ranking	146
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Starting a Business	136
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Dealing with Construction Permits	83
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Employing Workers	167
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Registering Property	126
Getting Credit	150
Protecting Investors	132
Paying Taxes	112
Trading Across Borders	58
Enforcing Contracts	38
Closing a Business	183

## CONVERSION AND TRANSFER POLICIES

¶12. The government gives foreign investors important guarantees such as privately managed foreign currency accounts which can be credited only in foreign currency from abroad or from other foreign accounts in Cape Verde. In addition, it allows undisputed repatriation of dividends, profits and capital from foreign investment operations. To benefit from these advantages the investor has to qualify for a foreign investor status through its official agency Cabo Verde Investimentos.

¶13. The regulatory legislation specifies that for the initial five years of operation, dividends may be freely expatriated without tax and that for the next fifteen years dividends may be expatriated with a flat tax of ten percent. Incentives for outward investment in developing countries are not included in the legislation, but they have been provided on an ad hoc basis.

¶14. Current law permits a foreign investor to request the Bank of Cape Verde to transfer loan repayment, revenue/profits, and capital gains overseas within 30, 60 and 90 days respectively.

¶15. Cape Verde benefits from the absence of exchange-rate risk in relation to the Euro (CVE pegged to the Euro). Since 1998, Cape Verde has pursued a fixed exchange rate policy by pegging the CVE to the PTE and, since 4 January 1999, to the euro, at a rate of CVE110.27 per euro. This fixed exchange rate arrangement is a credit facility granted by Portugal to Cape Verde - Credit Facility Contract- and managed by a joint Cape Verdean and Portuguese body named Comissao do Acordo de Cooperacao Cambial (COMACC).

¶16. Both residents and non-residents may hold foreign exchange

PRAIA 00000022 004 OF 013

accounts, subject to government approval and regulations. Most payments and transfers are subject to controls.

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## EXPROPRIATION AND COMPENSATION

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¶17. In the event of expropriation, or acquisition of privately owned property by the government for the public's interest, the government will compensate the owner, on the basis of prevailing market prices, or the actual market value of the property on the day of expropriation. Compensation may be repatriated at the exchange rate in effect on the day on the day of expropriation.

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## DISPUTE SETTLEMENT

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¶18. Disputes between foreign investors and the government will be settled either by recourse to a single referee or an arbitration commission. Referees may be foreigners. If so, they may not have the same nationality as the parties involved in the dispute. Should there be difficulty in reaching an agreement over the nomination of the referees, referees may be appointed by a recognized national body or international organization, with the ultimate authority being the International Center of Settlement of Investment Disputes (ICSID). Generally, the arbitration will be carried out in Cape Verde and in Portuguese, unless the parties agree on another site and language. The decision of the single referee or the arbitration committee is final and there is no appeal.

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## PERFORMANCE REQUIREMENTS AND INCENTIVES

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¶19. The government offers local and foreign investors the same incentives. The incentives do not carry performance requirements. Instead, the government favors investments that are either export-oriented or diversify geographically and technologically the country's industrial base.

¶20. Through existing international agreements, exporters have preferential access to the markets of Europe, West Africa and the United States. Incentives to firms that export their entire output (free-zone enterprises) are the most generous, but all foreign firms investing in Cape Verde, regardless of the location of their markets, can benefit from the following

incentives. In order to benefit from these advantages the investor has to qualify for a Foreign "Investor Status" through Cabo Verde Investimentos.

#### ¶21. Fiscal Incentives:

PRAIA 00000022 005 OF 013

- Entitlement to a full exemption from fiscal obligations applicable to all dividends and profits, generated during the first five years of operation, on condition that foreign capital is reinvested;
- Provision of tax-exemptions on amortizations and interests accruing from Foreign investment related financial transactions;
- Standardization of the Fiscal regime (10% of Sole Personal Income (IUR), after the sixth year of activity, considering the bilateral clauses, stipulated in agreements observed by the Cape Verde and the foreign investor's country.
- Tax-exemptions on dividends and profit taxations shared by stakeholders during the first five-year period of production activity;
- Tax-exemptions on dividends which capital has been reinvested;
- Tax-exemptions on amortizations and interests.

#### ¶22. Guarantees:

- Legal protection of private property rights, regarding foreign investment;
- Unconditional transferability in convertible currency, of net profits and dividends;
- Privately managed foreign currency accounts;
- Freedom to hire foreign workers up to 10% of the permanent labor force. (Decree Law 89/ IV/ 93 of December 13)

#### ¶23. Sectors Specific Incentives:

Industry:

- Exemption from corporate taxes, consumer tax and general customs emoluments over imports of goods, equipment and listed materials;

- Exemption of Sole Personal Income (IUR) over incomes generated in each new industrial establishment that has been previously registered within a three-year period;
- Free export of goods;
- Tax deduction on profits reinvested. (Law Decree 108/ 89, of 30 December)

#### Tourism:

- Exemption from general customs duties over imports of materials used for exclusive construction or installation of tourism facilities;
- Exemption from real estate transfer and property taxes;
- 100% fiscal exemption for the first five-year period;
- For the ten years following the first five, the fiscal imposition shall be 50%;

PRAIA 00000022 006 OF 013

- Tax deduction on profits reinvested in similar activities;
- Tax deduction for expenses incurred in training the local taskforce;
- Tourism Utility Act (Law Decree 11/ 94 of 14 February 1994);
- Duty-free imports, customs emoluments of goods and materials required for export products;
- Free export of goods. (Law Decree 42/IV/92, of 6 April 1992)

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#### RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

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124. The right to private ownership and establishment is guaranteed under the constitution.

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#### PROTECTION OF PROPERTY RIGHTS

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125. Property rights are recognized and guaranteed in several Cape Verdean laws, as well as by the constitution. There is a legal entity that records secured interests in property, both chattel and real. There is also a legal system that protects and facilitates acquisition and disposition of all property rights.

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## TRANSPARENCY OF REGULATORY SYSTEM

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¶26. The current Cape Verdean government is committed to continuously improve the conditions for foreign investment and to encourage a more transparent and competitive economic environment. The basic Cape Verdean legislation affecting foreign investment is contained in the external investment law and the law of industrial development. These laws establish the principle of equal treatment for foreign investment and affirm the government's commitment to the creation of a dynamic business environment. The industrial development statute regulates the granting of incentives and simplifies the investment approval process.

¶27. Laws on the promotion of exports, incentives to exports and free-zone enterprises stress the commitment of the government to encourage investment in export-oriented industries. Bureaucratic procedures have been simplified in a number of cases. The investment approval process has been expedited within the revision of the external investment code. The Capeverdean Agency for the Promotion of Investment, Cabo Verde Investimentos (CI), has become a one-stop shop for external investors. In general, external investment operations are subject to prior authorization from the minister in charge of economic affairs. An external investor must present the following information to CI:

PRAIA 00000022 007 OF 013

- A Letter address to the Minister of Finances, c/o Cape Verde Investments
- Two completed forms (Authorization for External Investment and Operation of External Investment forms)
- Summary of the project
- Forms of identification (owners/ operators)
- Resume
- Banking information
- Environmental Assessment of the Project/ Business
- Address of the Project/ Business

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## EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

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¶28. Cape Verde has a small but relatively strong, efficient and well managed financial sector supervised and regulated by a single institution which is the Central Bank of Cape Verde. The financial sector consists of:

- Credit institutions (banks and other institutions such as qualified by law);
- Special credit institutions (credit unions and savings banks);
- Nonbanking institutions;
- Insurance companies;
- Stock Exchange.

¶29. In the 90s, the statute of International Financial Institutions (IFIs) was created for institutions whose activities are directed primarily to non-residents. Most IFI banks in Cape Verde are "foreign branches" or Subsidiaries of Portuguese banks which establish in Cape Verde to benefit from tax advantages in their transactions with non-residents.

¶30. In December 2008, the financial sector included a total of 36 institutions with the following distribution:

- Five (5) commercial banks (BCA, CECV, InterAtlantico, BCN and BAI )
- Six (6) Nonbanking institutions (The Promoter, Quota Exchange, ECV financial services, SISP, Cape leasing international);
- Twelve (12) International Financial Institutions (IFIs);
- Three (3) management companies for securities and pension funds (IFIs);
- One (1) Stock Exchange (BVC);
- Two (2) insurance companies (Garantia and Impar).

¶31. Overall the banking sector is relatively small, with a still limited supply of financial products. However, it is well managed and encompasses good performance indicators; Credit risk are well controlled through a limited exposure and strict compliance with prudential ratios . At the end of 2008, the banking sector, excluding the IFIs and offshore banks, had:

- A network of 81 branches covering all municipalities in the country;

PRAIA 00000022 008 OF 013

- 904 employees;
- 109 ATMs and 1006 Debit machines available in all islands
- Debit cards, Credit cards and prepaid Visa cards

¶32. Bank credit is available to foreign investors under the same conditions as for national investors. The private sector has access to some credit instruments such as loans, letters of credit and lines of credit. The legal guidelines for accounting systems are clear but are not totally consistent with international norms.

¶33. The Ex-Im Bank has institutional ties to the national commercial banks.

¶34. The Cape Verdean stock market, Bolsa de Valores de Cabo Verde (BVC), is in full swing. It has been most active in the issuance of Bonds. Foreign investors must open a bank account with a local bank in Cape Verde before buying stocks or bonds from BVC.

¶35. Financial Sector Main Legislation:

- Banks the Special Credit Institutions: Law No. 3/V/96 - 1 July;
- Insurance: Decree Law No. 52 F/90 4 July and Decree-Law No 1 /2000, January 31;
- The Securities Market: Laws No. 51, 52 and all 53/V/98, May 11, 98
- IFIs: Laws No. 43/III/88 of 27 December, 60/VI/2005 - April 18, DL No 12/2005- February 7, and 44/2005 - June 27.

¶36. Banking, Insurance and Securities Market Regulations are in compliance with International regulations and meet international best practice.

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POLITICAL VIOLENCE

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¶37. Cape Verde's strengths are its political and social stability. There have never been any political or religious conflicts. In recent years there have been some incidences of strikes, promoted by labor unions, but in general they were all peaceful.

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CORRUPTION

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¶38. In 2009, Cape Verde moved up two places in the ranking of the International Transparency report (from 49th to 47th of 180 countries) and continues to have the second leading positions among African nations after Mauritius. Out of the 180 countries surveyed, only 49 achieved a score of 5.0 or more.

¶39. Corruption is criminally punishable by law. Giving or accepting a bribe is a criminal act and conviction could result in up to eight years in prison. To combat corruption effectively, the Cape Verdean government established the High Authority against Corruption and parliament has added three additional prosecutors to enforce the law. Other institutions active in combating corruption include the judiciary police, the prosecuting counsel and the courts. Bribery or the corruption of political officials and/or public servants is not a major issue of concern here though there have been rumored incidents in the recent past which were met with harsh public criticism and media vigilance. Under U.S. law, American companies and their affiliates are subject to the Foreign Corrupt Practices Act, which strictly prohibits the bribery of foreign officials.

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#### BILATERAL INVESTMENT AGREEMENTS

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¶40. Cape Verde has bilateral investment agreements with Angola, Austria, Belgium, China, Germany, Holland, Italy, Portugal, Russia, United Kingdom, Sweden and Switzerland. Since the end of 2007, Cape Verde enjoys a Special Partnership with to the European Union as a Peripheral Region Nation.

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#### OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

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¶41. The Overseas Private Investment Corporation (OPIC) (<http://opic.gov/>) offers political risk insurance, which includes coverage for exchange inconvertibility, expropriation, and war. Cape Verde is also a member of the Multilateral Investment Guarantee Agency (MIGA).

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#### LABOR

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¶42. With the unemployment rate running above 21%, creating jobs is one of the fundamental concerns of the Cape Verdean government. The government supports the stimulation of national production and foreign investments to create jobs and promote entrepreneurial initiatives.

¶43. The cost, productivity, and availability of labor are favorable. Unskilled labor represents some 30 to 40 percent of the total labor force and is readily available. Technical, managerial and professional talent is more difficult to find.

¶44. There is no minimum legal wage in Cape Verde. In general, wages are established according to the policy of each work place. There have been proposals to establish the minimum wage at CVE 15.000 per month which is approximately USD 203 per

PRAIA 00000022 010 OF 013

month; but consensus is yet to be reached.

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#### FOREIGN-TRADE ZONES/FREE PORTS

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¶45. The following five laws, the external investment law, the industrial development law, the industrial statute, the enterprise law, and the law of free-enterprises, constitute a package of free zone legislation. They comprise a strong set of incentives for export-oriented industrial firms, which permit broad flexibility of location. The free-zone enterprise law introduces a new status for enterprises that produce goods and services exclusively for export or to sell to other free-zone enterprises in Cape Verde.

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#### FOREIGN DIRECT INVESTMENT STATISTICS

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	CV in Millions	Exch. Rate	USD in Million
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2001	1,562.7	121.6	12.8
2002	4.517.2	117.3	38.5

2003	3,276.4	97.8	33.5
2004	6,037.8	88.7	68.0
2005	7,231.4	88.6	81.6
2006	11,484.1	87.9	130.6
2007	15,339.3	80.6	190.3
2008	15,749.6	75.3	209.0

PRAIA 00000022 011 OF 013

BY COUNTRY OF ORIGIN in %

	Angola	Spain	Italy	UK	Portugal	Others
2004	0.0	24.1	0.0	0.0	5.8	70.1
2005	0.0	1.5	5.1	0.1	29.7	63.6
2006	0.3	27.5	4.4	5.7	5.8	56.3
2007	6.8	12.3	5.0	5.1	8.0	62.8
2008	6.3	13.7	1.5	6.2	9.0	63.3
2009*	0.0	17.6	0.6	3.4	3.7	74.7

\* Jan to Sept

BY ISLAND in %

	SVicente	Sal	Boavista	Maio	Santiago	Others
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2004	0.4	0.4	18.5	0.0	12.1	69.0
2005	0.7	0.7	8.9	0.0	29.6	60.8
2006	3.6	3.6	49.4	0.0	7.5	37.7
2007	1.5	1.5	39.0	2.5	27.7	28.1
PRAIA 00000022 012 OF 013						
2008	1.1	1.1	42.2	1.5	30.4	24.4
2009*	0.1	0.1	28.6	0.2	24.4	39.3

\* Jan to Sept

BY ACTIVITY (in %)

	Service Sector				Non Service Sector		
	Tourism	Real Estate	Financial	Others	Industry	Commerce	Others
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2004	18.5	0.3	1.6	0.0	5.1	5.6	68.9
2005	0.5	9.1	15.9	0.6	9.7	2.6	61.6
2006	0.4	56.8	0.8	6.0	1.0	0.3	34.7
2007	2.6	56.8	6.2	4.9	0.0	1.9	27.6
2008	0.2	66.3	6.6	2.6	0.0	2.2	22.1
2009	6.6	60.5	0.0	0.3	0.0	1.3	31.3

PRAIA 00000022 013 OF 013